

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



42ND DISTRICT AGRICULTURAL ASSOCIATION
GLENN COUNTY FAIR
ORLAND, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-042
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

42ND DISTRICT AGRICULTURAL ASSOCIATION
GLENN COUNTY FAIR
ORLAND, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Samprit Kaur

Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#08-042

42ND DISTRICT AGRICULTURAL ASSOCIATION
GLENN COUNTY FAIR
ORLAND, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. John Viegas, President
Board of Directors
42nd DAA, Glenn County Fair
221 E. Yolo Street
Orland, California 95963

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 42nd District Agricultural Association (DAA), Glenn County Fair, Orland, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 42nd DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

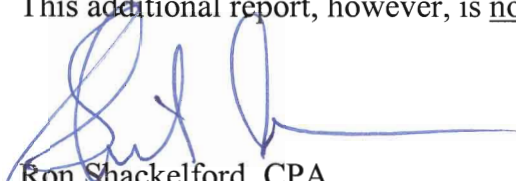
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 42nd DAA, Glenn County Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 42nd DAA, Glenn County Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-042, on the 42nd DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 42nd DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.


for Ron Shackelford, CPA
Chief, Audit Office

September 26, 2008

**42ND DISTRICT AGRICULTURAL ASSOCIATION
GLENN COUNTY FAIR
ORLAND, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006**

	Account Number	2007	2006
ASSETS			
Cash	111 - 121	\$ 206,397	\$ 176,690
Accounts Receivable, Net	131	43,580	33,084
Deferred Charges	143	1,234	629
Construction in Progress	190	36,627	35,419
Land	191	2,900	2,900
Buildings and Improvements, Net	192	889,203	919,150
Equipment, Net	193	4,577	9,154
TOTAL ASSETS		<u>1,184,518</u>	<u>1,177,026</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable	212	13,213	6,865
Deferred Income	228	42,879	15,633
Guaranteed Deposits	241	150	-
Compensated Absences Liability	245	33,893	29,703
Total Liabilities		<u>90,136</u>	<u>52,201</u>
Net Resources			
Reserve for Junior Livestock Auction	251	10,403	14,255
Net Resources - Operations	291	150,673	143,947
Net Resources - Capital Assets less Related Debt	291.1	933,307	966,623
Total Net Resources Available		<u>1,094,383</u>	<u>1,124,825</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 1,184,518</u>	<u>\$ 1,177,026</u>

**42ND DISTRICT AGRICULTURAL ASSOCIATION
GLENN COUNTY FAIR
ORLAND, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2007 and 2006

	Account Number	2007	2006
REVENUE			
State Apportionments	312	\$ 150,000	\$ 150,000
Capital Projects Reimbursement Fund	319	22,957	22,502
Other Funds	340	63,258	38,130
Admissions	410	90,038	67,005
Commercial Space	415	17,351	14,900
Carnival	420	43,148	33,515
Food Concessions	421	34,571	27,288
Exhibits	430	8,594	9,719
Horse Show	440	3,465	2,145
Orland Railroad	450	4,875	3,433
Attractions - Fairtime	460	17,158	14,719
Miscellaneous Fair	470	48,281	34,077
Miscellaneous Non-Fair	47005	956	52,064
JLA - Revenue	476	50,155	51,302
Non-Fair Revenue	480	127,648	125,117
Prior Year Adjustment	490	(553)	(22)
Other Revenue	495	10,372	21,287
Total Revenue		<u>692,274</u>	<u>667,180</u>
EXPENSES			
Administration	500	132,368	128,311
Maintenance and Operations	520	217,667	202,598
Publicity	540	18,973	14,049
Attendance	560	37,329	35,047
Miscellaneous Fair & Non-Fair	570	22,840	70,637
JLA - Expense	576	54,006	49,734
Premiums	580	19,354	17,491
Exhibits	630	36,382	35,171
Horse Show	640	3,770	2,681
Orland Railroad	650	6,920	2,598
Attractions - Fairtime	660	53,301	53,144
Equipment	723	487	406
Prior Year Adjustments	800	(1,757)	(1,332)
Cash Over/Short from Ticket Sales	850	34	(11)
Depreciation	900	57,783	58,681
Other Operating Expense	945	63,258	38,130
Total Expenses		<u>722,716</u>	<u>707,334</u>
RESOURCES			
Net Change - Income / (Loss)		(30,442)	(40,155)
Resources Available, January 1		1,124,825	1,164,979
Resources Available, December 31		<u>\$ 1,094,383</u>	<u>\$ 1,124,825</u>

**42ND DISTRICT AGRICULTURAL ASSOCIATION
GLENN COUNTY FAIR
ORLAND, CALIFORNIA**

STATEMENTS OF CASH FLOWS- REGULATORY BASIS
Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenues Over Expenses (Expenses Over Revenue)	\$ (30,442)	\$ (40,154)
(Increase) Decrease in Accounts Receivable	(10,497)	(3,635)
(Increase) Decrease in Deferred Charges	(605)	1,572
Increase (Decrease) in Accounts Payable	6,348	(583)
Increase (Decrease) in Deferred Income	27,246	(16,953)
Increase (Decrease) in Compensated Absence Liability	4,190	6,690
Increase (Decrease) in Guaranteed Deposits	150	(350)
Total Adjustments	<u>26,833</u>	<u>(13,259)</u>
Net Cash Provided (Used) by Operating Activities	<u>(3,609)</u>	<u>(53,413)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Buildings and Improvements	29,947	54,104
(Increase) Decrease in Construction in Progress	(1,208)	(17,502)
(Increase) Decrease in Equipment	<u>4,577</u>	<u>4,577</u>
Net Cash Provided (Used) by Investing Activities	<u>33,316</u>	<u>41,179</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	<u>-</u>	<u>(5,000)</u>
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>(5,000)</u>
NET INCREASE (DECREASE) IN CASH	29,707	(17,235)
Cash at Beginning of Year	176,690	193,925
CASH AT END OF YEAR	<u><u>\$ 206,397</u></u>	<u><u>\$ 176,690</u></u>

**42ND DISTRICT AGRICULTURAL ASSOCIATION
GLENN COUNTY FAIR
ORLAND, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 42nd District Agricultural Association (DAA) was formed in March 1937, for the purpose of sponsoring, managing, and conducting the Glenn County Fair each year in Orland, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents – The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization. The DAA's

accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 75	\$ 75
Cash in Bank – Operating	19,855	20,617
Cash in Bank – JLA	10,403	14,255
Cash in Bank – Horse Auction	0	250
Cash in Bank – LAIF	176,064	141,493
Total Cash and Cash Equivalents	<u>\$ 206,397</u>	<u>\$ 176,690</u>

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 28,473	\$ 19,730
Accounts Receivable – F&E	15,107	13,354
Allowance for Doubtful Accounts	<u>0</u>	<u>0</u>
Accounts Receivable – Net	<u>\$ 43,580</u>	<u>\$ 33,084</u>

NOTE 4 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Building & Improvements	\$ 2,447,045	\$2,425,295
Less: Accumulated Depreciation	<u>(1,557,842)</u>	<u>(1,506,145)</u>
Building & Improvements – Net	<u>\$ 889,203</u>	<u>\$ 919,150</u>

Equipment	\$ 67,419	\$ 80,876
Less: Accumulated Depreciation	<u>(62,842)</u>	<u>(71,722)</u>
Equipment – Net	<u>\$ 4,577</u>	<u>\$ 9,154</u>

NOTE 5 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participates in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 6 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**42ND DISTRICT AGRICULTURAL ASSOCIATION
GLENN COUNTY FAIR
ORLAND, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 42nd DAA Board of Directors
1	Chief Executive Officer, 42nd DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE
AUDIT OFFICE



42ND DISTRICT AGRICULTURAL ASSOCIATION
GLENN COUNTY FAIR
ORLAND, CALIFORNIA

MANAGEMENT REPORT #08-042

YEAR ENDED DECEMBER 31, 2007

42ND DISTRICT AGRICULTURAL ASSOCIATION
GLENN COUNTY FAIR
ORLAND, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Samprit Kaur

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#08-042

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. John Viegas, President
Board of Directors
42nd DAA, Glenn County Fair
PO Box 667
Orland, California 95963

In planning and performing our audit of the financial statements of the 42nd District Agricultural Association (DAA), Glenn County Fair, Orland, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Yuba-Sutter Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 42nd DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 42nd DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly



recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 42nd DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 42nd DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 42nd DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 42nd District Agriculture Association and compliance with state laws and regulations, we identified no areas with reportable conditions.

However, we identified areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 42nd DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

NON-REPORTABLE CONDITIONS

ACCOUNTING FOR FIXED ASSETS

Our office noted the Fair did not correctly account for all fixed asset transactions prior to closing the accounting period and preparing the year-end financial reports. The Fair overstated their Account #192.1, Accumulated Depreciation – Building and Improvements, by \$3,132. The Fair recorded \$1,560,974 for Account #192.1; however, upon examination of depreciation schedule, we noted that the correct balance for Accumulated-Depreciation Expense to be \$1,557,842. Likewise, the Fair also overstated Account #900, Depreciation Expense for Building and Improvements by \$1,623. The Fair recorded \$54,829 for Account #900; whereas after the analysis of the depreciation schedule, the correct amount should be \$53,206. The variances noted were due to a miscalculation error by the Fair. As a result of the accounting error the Fair overstated account #192.1 by \$3,132, causing overall Account #291, Net Resources, to be overstated at the year end 2007.

Recommendation

The Fair should ensure that their property ledger and related depreciation schedule are adequately updated and reconciled to reflect the fair value of related assets prior to closing the accounting period and preparing the year-end accounting reports. This process will benefit the Fair since it will result in the preparation of a more accurate Statement of Operations (STOP).

INTERNAL CONTROLS OVER CONCESSIONS REVENUE

The Fair exposed itself to potential loss of revenue by not enforcing adequate controls over the use of cash registers during the fairtime by food concessionaires. It was noted that one of the concessionaire's daily seller's report did not support the cash register z-tapes provided. The cash register tape provided did not have the gross sales figure to determine the accurate amount of sales during the day, thereby making the information submitted impossible to verify. The accounting procedures manual requires all concessionaires, who contracted to pay a set percentage, to use modern cash registers and submit z-tapes to verify gross sales reported for the day.

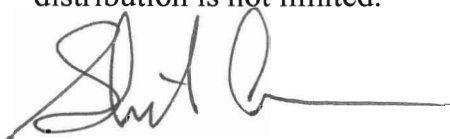
Recommendation

The Fair should comply with the accounting procedures manual and require all food concessionaires to provide cash register z-tapes to support all transactions on a daily basis. The purpose of the cash register z-tape is to ensure adequate supporting documentation exists so that the Fair can audit and verify the reported daily sales.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between September 15, 2008 and September 26, 2008. My staff met with management on September 26, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



For Ron Shackelford, CPA
Chief, Audit Office

September 26, 2008

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 42nd DAA Board of Directors
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